

# FISCAL NOTE

**Bill #:** HB0472

**Title:** Health insurance payments as income tax credit for certain individuals

**Primary Sponsor:** Maclaren, G

**Status:** As Introduced

Sponsor signature

Date

David Ewer, Budget Director

Date

## Fiscal Summary

	<b><u>FY 2006 Difference</u></b>	<b><u>FY 2007 Difference</u></b>
<b>Expenditures:</b>		
General Fund	\$0	\$0
<b>Revenue:</b>		
General Fund	\$(42,617,531)	\$(45,766,285)
<b>Net Impact on General Fund Balance:</b>	\$(42,617,531)	\$(45,766,285)

- |   |   |
|---|---|
| <input type="checkbox"/> Significant Local Gov. Impact    | <input type="checkbox"/> Technical Concerns                       |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached  | <input type="checkbox"/> Needs to be included in HB 2             |

## Fiscal Analysis

### ASSUMPTIONS:

1. This bill provides for a new *refundable* tax credit for qualifying households for medical insurance premiums paid by the taxpayer for coverage of the taxpayer, or the taxpayer's spouse and dependents.
2. In order to qualify for the credit, the taxpayer's total gross household income, as defined in 15-30-171, MCA, must be less than *200% of the federal poverty level* for the appropriate family size.
3. The amount of the credit allowed is equal to 50% of premium payments made for medical care insurance during the tax year. Any deduction for medical insurance premiums otherwise allowed by law must be reduced by the amount of credit claimed. Any credit amount in excess of the taxpayer's tax liability must be refunded to the taxpayer, and taxpayers with no tax liability are entitled to a refund equaling the total amount of credit claimed.
4. Under current law, taxpayers who itemize their deductions for individual income tax purposes are allowed to deduct in full medical insurance premiums paid during the tax year. For every taxpayer who currently takes the itemized deduction for medical insurance premiums whose household income is below 200% of the federal poverty level, it will be significantly more advantageous to take the credit provided for in the proposal rather than the deduction. The following table provides an estimate of the revenue impact from this bill for these types of taxpayers. As the table shows, in tax year 2003 a total of \$234,737,082 was taken as an itemized deductions for medical insurance premiums. A computer program selected those

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households currently taking this deduction that had incomes below 200% of the federal poverty level for the appropriate family size. The amount of deduction attributable to these households is shown in the table, by type of filing household (single, head of household, etc.). In tax year 2003, a total of \$76,104,775 was deducted by households with total income below 200% of the federal poverty level.

These households would take the tax credit, rather than itemize deductions, under the provisions of this bill. This would have resulted in refundable tax credits for these households totaling \$38,052,388 (50% of total premiums paid) in tax year 2003. The table also shows the forecast of total credits that would be taken under this bill in tax year 2005 (\$43,974,229); tax year 2006 (\$47,223,221); and tax year 2007 (\$50,102,610). (These amounts reflect growth in the current law itemized deduction for medical insurance premiums as contained in HJR2.)

Estimated Impact of HB472 on State General Fund - Tax Year Liability				
Item of Information	TY2003	TY2005	TY2006	TY2007
Total Medical Insurance Premiums Deduction	234,737,082	271,267,664	291,310,004	309,072,340
Amount Eligible for Tax Credit				
Single Filers	26,096,812	30,158,086	32,386,287	34,361,008
Head of Household Filers	1,543,128	1,783,275	1,915,030	2,031,797
Married Couples Filing Jointly	43,754,976	50,564,274	54,300,165	57,611,063
Married Couples Filing Separately	4,709,859	5,442,823	5,844,961	6,201,351
Total Amount of Deduction Eligible for Credit	76,104,775	87,948,458	94,446,442	100,205,220
Total Amount of Credit Claimed (50%)	38,052,388	43,974,229	47,223,221	50,102,610
Offset for Reduced Itemized Deductions		(1,356,698)	(1,456,937)	(1,545,772)
<b>Net Impact (Reduction) to State General Fund</b>		<b>42,617,531</b>	<b>45,766,285</b>	<b>48,556,838</b>

- There will be an offset to the impact of the credit due to the fact that any credit taken cannot also be taken as a deduction. The reduced amount of deduction taken is estimated to reduce the impact of the credit by \$1,356,698 in tax year 2005; by \$1,456,937 in tax year 2006; and by \$1,545,772 in tax year 2007.
- All of the tax year 2005 impact will occur in FY 2006, and all of the tax year 2006 impact will occur in FY 2007. The above assumptions results in a reduction in revenue to the state general fund of \$42,617,531 in FY 2006 and \$45,766,285 in FY 2007. This is the minimum estimated impact, as it does not include taxpayers who currently do not itemize their deductions, but who nevertheless have some medical insurance premium payments. These taxpayers also would be eligible for the refundable credit, but this impact is not reflected in the above figures.
- There are no administrative impacts to the Department of Revenue from this bill.

### FISCAL IMPACT:

	FY 2006 <u>Difference</u>	FY 2007 <u>Difference</u>
<u>Revenues:</u>		
General Fund (01)	\$(42,617,531)	\$(45,766,285)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	\$(42,617,531)	\$(45,766,285)

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EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

None.

LONG-RANGE IMPACTS:

General fund revenue would be reduced an estimated \$48.6 million in FY2008, and this amount would grow with the rate of growth in medical insurance premiums paid in subsequent years.